Aganang Local Municipality
Annual Financial Statements
for the year ended 30 June 2016

General Information

Legal form of entity	Local Municipality
Nature of business and principal activities	Service Delivery
Mayoral committee	
Mayor	Hon. M.M Mokobodi
Executive Councillors	Cllr M.M Dikgale (Speaker)
	Cllr M.D Teffo (Chief Whip)
	Cllr M.L Mothata (Exco member)
	Cllr M.V Mathye (Exco member)
	Cllr K.A Mahoai (Exco member)
	Cllr T.E Lekoloane (Exco member)
	Cllr M.W Kganyago (Exco member)
	Cllr T.G Phaka (MPAC Chairperson)
Members of the Council	Cllr L.N Ntsewa
	Cllr M.B Malebana
	Cllr M.L Lepadima
	Cllr M.M Matsemela
	Cllr K.P Senoamadi
	Cllr M.S Papola
	Cllr L.J Mogaila
	Cllr M.M Mashamaite
	Cllr M.A Lediga
	Cllr L.J Mogotlane
	Cllr M.G Poopedi
	Cllr K.E Kgatla
	Cllr K.J Kganyago
	Cllr M.E Manamela
	Cllr K.J Phukubje
	Cllr D. Sebelebele
	Cllr S.S Cholo
	Cllr N.D Madikoto
	Cllr P.P Makweya
	Cllr R.C Mashitisho
	Cllr H.M Phalane
	Cllr E.L Maraba
	Cllr J.T Mokgapa
	Cllr R.A Magongwa
	Cllr P.S Phaka
	Cllr C.J Mothotsi
	Cllr T.S Marutla
Grading of local authority	Level 3
Chief Finance Officer (CFO)	Mr. M. Mokonyama
Accounting Officer	Mr. R. Selepe
Registered office	Cnr Gillead and knobel Road
	Between Rampuru and Ceres Villages
	Moletji
	0748

General Information

Postal address	P.O.Box 990 Jono Moletjie 0748
Bankers	Nedbank Limited
Auditors	Auditor General of South Africa
Published	31 August 2016

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The reports and statements set out below comprise the annual financial statements presented to the provincial legislature:

Abbreviations

COID	Compensation for Occupational Injuries and Diseases
CRR	Capital Replacement Reserve
DBSA	Development Bank of South Africa
GRAP	Generally Recognised Accounting Practice
HDF	Housing Development Fund
IAS	International Accounting Standards
IMFO	Institute of Municipal Finance Officers
IPSAS	International Public Sector Accounting Standards
ME's	Municipal Entities
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)

Accounting Officer's Responsibilities and Approval

The accounting officer is required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and is responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the annual financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended.

I am responsible for the preparation of these annual financial statements, which are set out on pagess 5 to 55, in terms of Section 126(1) of the Municipal Finance Management Act and which i have signed on behalf of the Municipality.The financial statements have been been prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

The financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The accounting officer acknowledges that he is ultimately responsible for the system of internal financial control established by the municipality and place considerable importance on maintaining a strong control environment. To enable the accounting officer to meet these responsibilities, the accounting officer sets standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality’s business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The accounting officer is of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or deficit.

The accounting officer has reviewed the municipality’s cash flow forecast for the year to 30 June 2017 and, in the light of this review and the current financial position, he is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

The municipality is wholly dependent on the government for continued funding of operations. Thefinancial statements are prepared on the basis that the municipality as a going concern and that the municipality has neither the intention nor the need to liquidate or curtail materially the scale of the its operations.

Although the accounting officer are primarily responsible for the financial affairs of the municipality, they are supported by the municipality's external auditors.

The external auditors are responsible for independently reviewing and reporting on the municipality's financial statements.

The annual financial statements set out on pages 5 to 55, which have been prepared on the going concern basis, were approved by the accounting officer on 31 August 2016 and were signed on its behalf by:

Mr. R. Selepe
Municipal manager

Accounting Officer's Report

The accounting officer submits his report for the year ended 30 June 2016.

1. Review of activities

Main business and operations

The operating results and state of affairs of the municipality are fully set out in the attached annual financial statements.

Net surplus of the municipality was R 57,369,561 (2015: deficit R 18,757,975).

2. Going concern

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

3. Subsequent events

The municipality would be disestablished with its portions incorporated into areas of Polokwane, Molemole and Blouberg municipalities as effective from the 8th August 2016. All assets and liabilities will be distributed to those municipalities.

4. Submission of annual financial statements

The financial statements were submitted on 31 August 2016. The Municipality complied with the requirements of Section 126 of the Municipal Finance Management Act.

5. Accounting policies

The annual financial statements prepared in accordance with the Generally Recognised Accounting Practices (GRAP), including any interpretations of such Statements issued by the Accounting Standards Board.

6. Corporate governance

The Council

- retains full control over the municipality, its plans and strategy;
- acknowledges its responsibilities as to strategy, compliance with internal policies, external laws and regulations, effective risk management and performance measurement, transparency and effective communication both internally and externally by the municipality;

7. Fruitless and wasteful expenditure

During the current financial year payments to the value of R 9 875 were regarded as fruitless and wasteful expenditure. This was due to late payment of invoices to Eskom.

8. Audit committee

Mr M.D Poopedi was the chairperson of the audit committee for the financial year under review.

In terms of Section 166 of the Municipal Finance Management Act, municipality must appoint members of the Audit Committee. National Traesury policy requires that municipalities should appoint further members of the municipality's audit committee who are not councillors of the municipality on to the audit committee.

9. Bankers

The municipality has its primary bank account with Nedbank Limited.

10. Auditors

The municipality is audited by the Auditor General of South Africa.

Statement of Financial Position as at 30 June 2016

Figures in Rand	Notes	2016	2015
Assets			
Current Assets			
Inventories	6	688,670	651,615
Receivables from exchange transactions	7	590,973	381,075
VAT receivable	8	7,756,397	9,855,793
Consumer debtors	9	30,650,574	20,258,164
Cash and cash equivalents	10	119,841,985	85,572,085
		159,528,599	**116,718,732**
Non-Current Assets			
Property, plant and equipment	3	87,603,827	79,883,836
Investment property	4	959,798	895,416
Intangible assets	5	46,537	116,925
		88,610,162	**80,896,177**
Total Assets		**248,138,761**	**197,614,909**
Liabilities			
Current Liabilities			
Payables from exchange transactions	11	22,312,280	15,519,011
Unspent conditional grants and receipts	12	5,819,404	18,821,078
Provisions	13	3,461,151	3,420,240
Finance lease obligation	14	-	252,175
		31,592,835	**38,012,504**
Non-Current Liabilities			
Employee benefit obligation	15	1,213,376	936,361
Total Liabilities		**32,806,211**	**38,948,865**
Net Assets		**215,332,550**	**158,666,044**
Reserves			
Revaluation reserve		-	28,033,870
Accumulated surplus		215,332,550	130,632,174
Total Net Assets		**215,332,550**	**158,666,044**

Statement of Financial Performance

Figures in Rand	Notes	2016	2015
Revenue			
Revenue from exchange transactions			
Rental of facilities and equipment		383,765	392,280
Interest received (trading)		2,904,879	1,491,332
Other income		3,126,848	2,571,119
Interest received - investment	17	8,065,666	4,105,784
Total revenue from exchange transactions		**14,481,158**	**8,560,515**
Revenue from non-exchange transactions			
Taxation revenue			
Property rates	18	8,824,170	21,908,856
Traffic fines		653,238	808,374
Transfer revenue			
Government grants & subsidies	19	172,620,674	120,160,376
Total revenue from non-exchange transactions		**182,098,082**	**142,877,606**
Total revenue		**196,579,240**	**151,438,121**
Expenditure			
Employee related costs	20	(41,220,619)	(34,821,166)
Remuneration of councillors	21	(12,734,413)	(12,126,093)
Depreciation and amortisation		(7,795,184)	(4,945,688)
Impairment loss		-	(26,931)
Finance costs	22	(139,403)	(52,982)
Debt Impairment	23	(324,286)	(70,226,360)
Repairs and maintenance		(1,839,657)	(960,068)
General Expenses	24	(75,313,634)	(47,332,193)
Total expenditure		**(139,367,196)**	**(170,491,481)**
Operating surplus (deficit)		**57,212,044**	**(19,053,360)**
Gain on disposal of assets		157,517	202,250
Fair value adjustment		-	93,135
		157,517	**295,385**
Surplus (deficit) for the year		**57,369,561**	**(18,757,975)**

Aganang Local Municipality

Annual Financial Statements for the year ended 30 June 2016

Statement of Changes in Net Assets

Figures in Rand	Revaluation reserve	Accumulated surplus	Total net assets
Opening balance as previously reported	-	167,286,956	167,286,956
Adjustments			
Prior year adjustments	-	(17,896,807)	(17,896,807)
Balance at 01 July 2014 as restated*	**-**	**149,390,149**	**149,390,149**
Changes in net assets			
Surplus for the year	-	(18,757,975)	(18,757,975)
Property plant and equipment	28,033,870	-	28,033,870
Total changes	28,033,870	(18,757,975)	9,275,895
Balance at 01 July 2015	**28,033,870**	**157,962,989**	**185,996,859**
Changes in net assets			
Surplus for the year	-	57,369,561	57,369,561
Revaluation reserve	(28,033,870)	-	(28,033,870)
Total changes	(28,033,870)	57,369,561	29,335,691
Balance at 30 June 2016	**-**	**215,332,550**	**215,332,550**

Cash Flow Statement

Figures in Rand	Notes	2016	2015
Cash flows from operating activities			
Receipts			
Rates and taxes		3,301,422	1,860,218
Grants		159,619,000	120,160,376
Interest income		8,065,666	4,105,784
Other receipts		3,510,613	5,373,227
Other cash item		-	10,285,624
		174,496,701	141,785,229
Payments			
Employee costs		(53,621,545)	(46,947,258)
Suppliers		(70,158,971)	(44,221,250)
Finance costs		(139,403)	(52,982)
		(123,919,919)	(91,221,490)
Net cash flows from operating activities	26	**50,576,782**	**50,563,739**
Cash flows from investing activities			
Purchase of property, plant and equipment	3	(16,212,224)	(14,958,559)
Proceeds from sale of property, plant and equipment	3	157,517	202,181
Net cash flows from investing activities		**(16,054,707)**	**(14,756,378)**
Cash flows from financing activities			
Finance lease payments		(252,175)	(446,829)
Net increase/(decrease) in cash and cash equivalents		**34,269,900**	**35,360,532**
Cash and cash equivalents at the beginning of the year		85,572,085	50,211,553
Cash and cash equivalents at the end of the year	10	**119,841,985**	**85,572,085**

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Statement of Financial Performance						
Revenue						
Revenue from exchange transactions						
Rental of facilities and equipment	325,300	-	**325,300**	383,765	**58,465**	
Interest received (trading)	805,505	-	**805,505**	2,904,879	**2,099,374**	
Other income	12,278,068	(420,000)	**11,858,068**	3,126,848	**(8,731,220)**	
Interest received - investment	1,800,352	2,699,648	**4,500,000**	8,065,666	**3,565,666**	
Total revenue from exchange transactions	**15,209,225**	**2,279,648**	**17,488,873**	**14,481,158**	**(3,007,715)**	
Revenue from non-exchange transactions						
Taxation revenue						
Property rates	4,205,325	-	**4,205,325**	8,824,170	**4,618,845**	
Traffic fines	600,000	(300,000)	**300,000**	653,238	**353,238**	
Transfer revenue						
Government grants & subsidies	161,889,000	16,850,369	**178,739,369**	172,620,674	**(6,118,695)**	
Total revenue from non-exchange transactions	**166,694,325**	**16,550,369**	**183,244,694**	**182,098,082**	**(1,146,612)**	
Total revenue	**181,903,550**	**18,830,017**	**200,733,567**	**196,579,240**	**(4,154,327)**	
Expenditure						
Personnel	(52,356,823)	10,545,500	**(41,811,323)**	(41,220,619)	**590,704**	
Remuneration of councillors	(12,008,496)	3,820,000	**(8,188,496)**	(12,734,413)	**(4,545,917)**	
Depreciation and amortisation	-	-	**-**	(7,795,184)	**(7,795,184)**	
Finance costs	-	-	**-**	(139,403)	**(139,403)**	
Debt impairment	-	-	**-**	(324,286)	**(324,286)**	
Repairs and maintenance	(8,021,955)	30,125	**(7,991,830)**	(1,839,657)	**6,152,173**	
General Expenses	45,526,592	2,639,530	**48,166,122**	(75,313,634)	**(123,479,756)**	
Total expenditure	**(26,860,682)**	**17,035,155**	**(9,825,527)**	**(139,367,196)**	**(129,541,669)**	
Operating surplus	**155,042,868**	**35,865,172**	**190,908,040**	**57,212,044**	**(133,695,996)**	
Gain on disposal of assets and liabilities	-	-	**-**	157,517	**157,517**	
Surplus before taxation	**155,042,868**	**35,865,172**	**190,908,040**	**57,369,561**	**(133,538,479)**	
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	**155,042,868**	**35,865,172**	**190,908,040**	**57,369,561**	**(133,538,479)**	

Accounting Policies

1. Presentation of Annual Financial Statements

The annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act (Act 56 of 2003).

These annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention as the basis of measurement, unless specified otherwise. They are presented in South African Rand. The accounting policies are consistent with the previous period.

Assets, liabilities, revenues and expenses were not offset, except where offsetting is either required or permitted by a Standard of GRAP.

A summary of the significant accounting policies, which have been consistently applied in the preparation of these annual financial statements, are disclosed below.

1.1 Presentation currency

These annual financial statements are presented in South African Rand, which is the functional currency of the municipality.

1.2 Going concern assumption

These annual financial statements were not prepared based on the expectation that the municipality will not be able to continue to operate as a going concern for at least the next 12 months.

1.3 Significant judgements and sources of estimation uncertainty

In preparing the annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the annual financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the annual financial statements. Significant judgements include:

Trade receivables / Held to maturity investments and/or loans and receivables

The municipality assesses its trade receivables, held to maturity investments and loans and receivables for impairment at the end of each reporting period. In determining whether an impairment loss should be recorded in surplus or deficit, the surplus makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

The impairment for trade receivables, held to maturity investments and loans and receivables is calculated on a portfolio basis, based on historical loss ratios, adjusted for national and industry-specific economic conditions and other indicators present at the reporting date that correlate with defaults on the portfolio. These annual loss ratios are applied to loan balances in the portfolio and scaled to the estimated loss emergence period.

Available-for-sale financial assets

The municipality follows the guidance of IAS 39 to determine when an available-for-sale financial asset is impaired. This determination requires significant judgment. In making this judgment, the municipality evaluates, among other factors, the duration and extent to which the fair value of an investment is less than its cost; and the financial health of and near-term business outlook for the investee, including factors such as industry and sector performance, changes in technology and operational and financing cash flow.

Fair value estimation

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values.

1.3 Significant judgements and sources of estimation uncertainty (continued)

Impairment testing

The recoverable amounts of cash-generating units and individual assets have been determined based on the higher of value-in-use calculations and fair values less costs to sell. These calculations require the use of estimates and assumptions.

The municipality reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. In addition, goodwill is tested on an annual basis for impairment. Assets are grouped at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. If there are indications that impairment may have occurred, estimates are prepared of expected future cash flows for each group of assets. Expected future cash flows used to determine the value in use of goodwill and tangible assets are inherently uncertain and could materially change over time.

Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 13 - Provisions.

Useful lives of property plant and equipment and other assets

The municipality's management determines the estimated useful lives and related depreciation charges for the property plant and equipment and other assets. This estimation should be based on the expected pattern in which an asset's future economic benefits or service potential are to be consumed by the municipality.

Long service awards

The present value of the post retirement obligation depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) include the discount rate. Any changes in these assumptions will impact on the carrying amount of post retirement obligations.

The municipality determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the municipality considers the interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability.

Effective interest rate

The municipality used the prime interest rate to discount future cash flows. In the event that different rates were used, clear indication of the rate and the reason are given.

Allowance for doubtful debts

On debtors an impairment loss is recognised in surplus and deficit when there is objective evidence that it is impaired. The impairment is measured as the difference between the debtors carrying amount and the present value of estimated future cash flows discounted at the effective interest rate, computed at initial recognition.

1.4 Investment property

Investment property is property (land or a building - or part of a building - or both) held to earn rentals or for capital appreciation or both, rather than for:

- use in the production or supply of goods or services or for
- administrative purposes, or
- sale in the ordinary course of operations.

Owner-occupied property is property held for use in the production or supply of goods or services or for administrative purposes.

Investment property is recognised as an asset when, it is probable that the future economic benefits or service potential that are associated with the investment property will flow to the municipality, and the cost or fair value of the investment property can be measured reliably.

Accounting Policies

1.4 Investment property (continued)

Investment property is initially recognised at cost. Transaction costs are included in the initial measurement.

Where investment property is acquired through a non-exchange transaction, its cost is its fair value as at the date of acquisition.

Costs include costs incurred initially and costs incurred subsequently to add to, or to replace a part of, or service a property. If a replacement part is recognised in the carrying amount of the investment property, the carrying amount of the replaced part is derecognised.

Investment property is derecognised on disposal or when the investment property is permanently withdrawn from use and no future economic benefits or service potential are expected from its disposal.

Gains or losses arising from the retirement or disposal of investment property is the difference between the net disposal proceeds and the carrying amount of the asset and is recognised in surplus or deficit in the period of retirement or disposal.

Compensation from third parties for investment property that was impaired, lost or given up is recognised in surplus or deficit when the compensation becomes receivable.

Property interests held under operating leases are classified and accounted for as investment property in the following circumstances:

When classification is difficult, the criteria used to distinguish investment property from owner-occupied property and from property held for sale in the ordinary course of operations, are as follows:

1.5 Property, plant and equipment

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one period.

The cost of an item of property, plant and equipment is recognised as an asset when:

- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost of the item can be measured reliably.

The cost an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

Where an asset is acquired through a non-exchange transaction, its cost is its fair value as at date of acquisition.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the asset(s) given up.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised. The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment, where the entity is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Major inspection costs which are a condition of continuing use of an item of property, plant and equipment and which meet the recognition criteria above are included as a replacement in the cost of the item of property, plant and equipment. Any remaining inspection costs from the previous inspection are derecognised.

Accounting Policies

1.5 Property, plant and equipment (continued)

Property, plant and equipment are depreciated on the straight line basis over their expected useful lives to their estimated residual value.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

Property, plant and equipment is carried at revalued amount, being the fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations are made with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period.

The useful lives of items of property, plant and equipment have been assessed as follows:

Item	Depreciation method	Average useful life
Buildings	Straight line	15-60 years
Plant and machinery	Straight line	4-5 years
Furniture and fixtures	Straight line	5 years
Motor vehicles	Straight line	5-10 years
Office equipment	Straight line	5 years
Computer equipment	Straight line	3 years
Computer software	Straight line	2-5 years
Infrastructure	Straight line	5-100 years
Other leased Assets	Straight line	10 years

The residual value, and the useful life and depreciation method of each asset are reviewed at the end of each reporting date. If the expectations differ from previous estimates, the change is accounted for as a change in accounting estimate.

1.6 Intangible assets

An asset is identifiable if it either:
- is separable, i.e. is capable of being separated or divided from an entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, identifiable assets or liability, regardless of whether the entity intends to do so; or
- arises from binding arrangements (including rights from contracts), regardless of whether those rights are transferable or separable from the municipality or from other rights and obligations.

A binding arrangement describes an arrangement that confers similar rights and obligations on the parties to it as if it were in the form of a contract.

An intangible asset is recognised when:
- it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality; and
- the cost or fair value of the asset can be measured reliably.

Expenditure on research (or on the research phase of an internal project) is recognised as an expense when it is incurred.

An intangible asset arising from development (or from the development phase of an internal project) is recognised when:
- it is technically feasible to complete the asset so that it will be available for use or sale.
- there is an intention to complete and use or sell it.
- there is an ability to use or sell it.
- it will generate probable future economic benefits or service potential.
- there are available technical, financial and other resources to complete the development and to use or sell the asset.
- the expenditure attributable to the asset during its development can be measured reliably.

After initial recognition, intangible assets are carried at revalued amount, being fair value at the date of revaluation less any subsequent accumulated amortisation and any subsequent accumulated impairment losses. Revaluations are made with sufficient regularity such that at the reporting date the carrying amount of the asset does not differ materially from its fair value.

1.6 Intangible assets (continued)

Any increase in the carrying amount of an intangible asset, as a result of a revaluation, is credited directly to a revaluation surplus. The increase is recognised in surplus or deficit to the extent that it reverses a revaluation decrease of the same asset previously recognised in surplus or deficit.

Any decrease in the carrying amount of an intangible asset, as a result of a revaluation, is recognised in surplus or deficit in the current period. The decrease is debited to a revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset.

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows or service potential. Amortisation is not provided for these intangible assets, but they are tested for impairment annually and whenever there is an indication that the asset may be impaired. For all other intangible assets amortisation is provided on a straight line basis over their useful life.

The amortisation period and the amortisation method for intangible assets are reviewed at each reporting date.

Reassessing the useful life of an intangible asset with a finite useful life after it was classified as indefinite is an indicator that the asset may be impaired. As a result the asset is tested for impairment and the remaining carrying amount is amortised over its useful life.

Internally generated brands, mastheads, publishing titles, customer lists and items similar in substance are not recognised as intangible assets.

Amortisation is provided to write down the intangible assets, on a straight line basis, to their residual values as follows:

Item	Useful life
Computer software, other	5 - 10 years

Intangible assets are derecognised:
- on disposal; or
- when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss arising from the derecognition of an intangible assets is included in surplus or deficit when the asset is derecognised (unless the Standard of GRAP on leases requires otherwise on a sale and leaseback).

1.7 Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one municipality and a financial liability or a residual interest of another municipality.

The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction (directly or through the use of an allowance account) for impairment or uncollectibility.

A concessionary loan is a loan granted to or received by an municipality on terms that are not market related.

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

Derecognition is the removal of a previously recognised financial asset or financial liability from an municipality’s statement of financial position.

A derivative is a financial instrument or other contract with all three of the following characteristics:
- Its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract (sometimes called the ‘underlying’).
- It requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors.

1.7 Financial instruments (continued)

- It is settled at a future date.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, an municipality shall estimate cash flows considering all contractual terms of the financial instrument (for example, prepayment, call and similar options) but shall not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate (see the Standard of GRAP on Revenue from Exchange Transactions), transaction costs, and all other premiums or discounts. There is a presumption that the cash flows and the expected life of a group of similar financial instruments can be estimated reliably. However, in those rare cases when it is not possible to reliably estimate the cash flows or the expected life of a financial instrument (or group of financial instruments), the municipality shall use the contractual cash flows over the full contractual term of the financial instrument (or group of financial instruments).

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arm's length transaction.

A financial asset is:

- cash;
- a residual interest of another municipality; or
- a contractual right to:
  - receive cash or another financial asset from another municipality; or
  - exchange financial assets or financial liabilities with another municipality under conditions that are potentially favourable to the municipality.

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

A financial liability is any liability that is a contractual obligation to:

- deliver cash or another financial asset to another municipality; or
- exchange financial assets or financial liabilities under conditions that are potentially unfavourable to the municipality.

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Liquidity risk is the risk encountered by an municipality in the event of difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

Loan commitment is a firm commitment to provide credit under pre-specified terms and conditions.

Loans payable are financial liabilities, other than short-term payables on normal credit terms.

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk.

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

A financial asset is past due when a counterparty has failed to make a payment when contractually due.

A residual interest is any contract that manifests an interest in the assets of an municipality after deducting all of its liabilities. A residual interest includes contributions from owners, which may be shown as:

- equity instruments or similar forms of unitised capital;
- a formal designation of a transfer of resources (or a class of such transfers) by the parties to the transaction as forming part of an municipality's net assets, either before the contribution occurs or at the time of the contribution; or
- a formal agreement, in relation to the contribution, establishing or increasing an existing financial interest in the net assets of an municipality.

Accounting Policies

1.7 Financial instruments (continued)

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability. An incremental cost is one that would not have been incurred if the municipality had not acquired, issued or disposed of the financial instrument.

Financial instruments at amortised cost are non-derivative financial assets or non-derivative financial liabilities that have fixed or determinable payments, excluding those instruments that:
- the municipality designates at fair value at initial recognition; or
- are held for trading.

Financial instruments at cost are investments in residual interests that do not have a quoted market price in an active market, and whose fair value cannot be reliably measured.

Financial instruments at fair value comprise financial assets or financial liabilities that are:
- derivatives;
- combined instruments that are designated at fair value;
- instruments held for trading. A financial instrument is held for trading if:
  - it is acquired or incurred principally for the purpose of selling or repurchasing it in the near-term; or
  - on initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short term profit-taking;
  - non-derivative financial assets or financial liabilities with fixed or determinable payments that are designated at fair value at initial recognition; and
  - financial instruments that do not meet the definition of financial instruments at amortised cost or financial instruments at cost.

Classification

The municipality has the following types of financial assets (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Class	Category
Receivable from exchange transactions	Financial asset measured at amortised cost
Receivable from non-exchange transactions	Financial asset measured at amortised cost
Cash and cash equivalent	Financial asset measured at amortised cost

The municipality has the following types of financial liabilities (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Class	Category
Payebles from exchange ttransactions	Financial liability measured at amortised cost
Finance lease obligation	Financial liability measured at amortised cost

Initial recognition

The municipality recognises a financial asset or a financial liability in its statement of financial position when the entity becomes a party to the contractual provisions of the instrument.

The municipality recognises financial assets using trade date accounting.

1.7 Financial instruments (continued)

Subsequent measurement of financial assets and financial liabilities

The municipality measures all financial assets and financial liabilities after initial recognition using the following categories:
- Financial instruments at fair value.
- Financial instruments at amortised cost.
- Financial instruments at cost.

All financial assets measured at amortised cost, or cost, are subject to an impairment review.

Fair value measurement considerations

The best evidence of fair value is quoted prices in an active market. If the market for a financial instrument is not active, the municipality establishes fair value by using a valuation technique. The objective of using a valuation technique is to establish what the transaction price would have been on the measurement date in an arm's length exchange motivated by normal operating considerations. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, if available, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. If there is a valuation technique commonly used by market participants to price the instrument and that technique has been demonstrated to provide reliable estimates of prices obtained in actual market transactions, the entity uses that technique. The chosen valuation technique makes maximum use of market inputs and relies as little as possible on entity-specific inputs. It incorporates all factors that market participants would consider in setting a price and is consistent with accepted economic methodologies for pricing financial instruments. Periodically, an municipality calibrates the valuation technique and tests it for validity using prices from any observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on any available observable market data.

The fair value of a financial liability with a demand feature (e.g. a demand deposit) is not less than the amount payable on demand, discounted from the first date that the amount could be required to be paid.

Reclassification

The municipality does not reclassify a financial instrument while it is issued or held unless it is:
- combined instrument that is required to be measured at fair value; or
- an investment in a residual interest that meets the requirements for reclassification.

Where the municipality cannot reliably measure the fair value of an embedded derivative that has been separated from a host contract that is a financial instrument at a subsequent reporting date, it measures the combined instrument at fair value. This requires a reclassification of the instrument from amortised cost or cost to fair value.

If fair value can no longer be measured reliably for an investment in a residual interest measured at fair value, the municipality reclassifies the investment from fair value to cost. The carrying amount at the date that fair value is no longer available becomes the cost.

If a reliable measure becomes available for an investment in a residual interest for which a measure was previously not available, and the instrument would have been required to be measured at fair value, the entity reclassifies the instrument from cost to fair value.

Gains and losses

A gain or loss arising from a change in the fair value of a financial asset or financial liability measured at fair value is recognised in surplus or deficit.

For financial assets and financial liabilities measured at amortised cost or cost, a gain or loss is recognised in surplus or deficit when the financial asset or financial liability is derecognised or impaired, or through the amortisation process.

Impairment and uncollectibility of financial assets

The municipality assess at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired.

Financial assets measured at amortised cost:

1.7 Financial instruments (continued)

Derecognition

Financial assets

The municipality derecognises financial assets using trade date accounting.

The municipality derecognises a financial asset only when:
- the contractual rights to the cash flows from the financial asset expire, are settled or waived;
- the municipality transfers to another party substantially all of the risks and rewards of ownership of the financial asset; or
- the municipality, despite having retained some significant risks and rewards of ownership of the financial asset, has transferred control of the asset to another party and the other party has the practical ability to sell the asset in its entirety to an unrelated third party, and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer. In this case, the municipality :
  - derecognise the asset; and
  - recognise separately any rights and obligations created or retained in the transfer.

The carrying amounts of the transferred asset are allocated between the rights or obligations retained and those transferred on the basis of their relative fair values at the transfer date. Newly created rights and obligations are measured at their fair values at that date. Any difference between the consideration received and the amounts recognised and derecognised is recognised in surplus or deficit in the period of the transfer.

If the municipality transfers a financial asset in a transfer that qualifies for derecognition in its entirety and retains the right to service the financial asset for a fee, it recognise either a servicing asset or a servicing liability for that servicing contract. If the fee to be received is not expected to compensate the entity adequately for performing the servicing, a servicing liability for the servicing obligation is recognised at its fair value. If the fee to be received is expected to be more than adequate compensation for the servicing, a servicing asset is recognised for the servicing right at an amount determined on the basis of an allocation of the carrying amount of the larger financial asset.

If, as a result of a transfer, a financial asset is derecognised in its entirety but the transfer results in the entity obtaining a new financial asset or assuming a new financial liability, or a servicing liability, the entity recognise the new financial asset, financial liability or servicing liability at fair value.

On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received is recognised in surplus or deficit.

If the transferred asset is part of a larger financial asset and the part transferred qualifies for derecognition in its entirety, the previous carrying amount of the larger financial asset is allocated between the part that continues to be recognised and the part that is derecognised, based on the relative fair values of those parts, on the date of the transfer. For this purpose, a retained servicing asset is treated as a part that continues to be recognised. The difference between the carrying amount allocated to the part derecognised and the sum of the consideration received for the part derecognised is recognised in surplus or deficit.

If a transfer does not result in derecognition because the municipality has retained substantially all the risks and rewards of ownership of the transferred asset, the municipality continue to recognise the transferred asset in its entirety and recognise a financial liability for the consideration received. In subsequent periods, the municipality recognises any revenue on the transferred asset and any expense incurred on the financial liability. Neither the asset, and the associated liability nor the revenue, and the associated expenses are offset.

Financial liabilities

The municipality removes a financial liability (or a part of a financial liability) from its statement of financial position when it is extinguished — i.e. when the obligation specified in the contract is discharged, cancelled, expires or waived.

An exchange between an existing borrower and lender of debt instruments with substantially different terms is accounted for as having extinguished the original financial liability and a new financial liability is recognised. Similarly, a substantial modification of the terms of an existing financial liability or a part of it is accounted for as having extinguished the original financial liability and having recognised a new financial liability.

Accounting Policies

1.7 Financial instruments (continued)

The difference between the carrying amount of a financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in surplus or deficit. Any liabilities that are waived, forgiven or assumed by another municipality by way of a non-exchange transaction are accounted for in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers).

Presentation

Interest relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

Dividends or similar distributions relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

Losses and gains relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

A financial asset and a financial liability are only offset and the net amount presented in the statement of financial position when the entity currently has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

In accounting for a transfer of a financial asset that does not qualify for derecognition, the entity does not offset the transferred asset and the associated liability.

1.8 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

When a lease includes both land and buildings elements, the entity assesses the classification of each element separately.

Finance leases - lessee

Finance leases are recognised as assets and liabilities in the statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

The discount rate used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease.

Minimum lease payments are apportioned between the finance charge and reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of on the remaining balance of the liability.

Any contingent rents are expensed in the period in which they are incurred.

Operating leases - lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.

1.9 Inventories

Inventories are initially measured at cost except where inventories are acquired through a non-exchange transaction, then their costs are their fair value as at the date of acquisition.

Subsequently inventories are measured at the lower of cost and net realisable value.

Inventories are measured at the lower of cost and current replacement cost where they are held for;

- distribution at no charge or for a nominal charge; or
- consumption in the production process of goods to be distributed at no charge or for a nominal charge.

Accounting Policies

1.9 Inventories (continued)

Net realisable value is the estimated selling price in the ordinary course of operations less the estimated costs of completion and the estimated costs necessary to make the sale, exchange or distribution.

Current replacement cost is the cost the municipality incurs to acquire the asset on the reporting date.

The cost of inventories comprises of all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

The cost of inventories of items that are not ordinarily interchangeable and goods or services produced and segregated for specific projects is assigned using specific identification of the individual costs.

The cost of inventories is assigned using the first-in, first-out (FIFO) formula. The same cost formula is used for all inventories having a similar nature and use to the municipality.

When inventories are sold, the carrying amounts of those inventories are recognised as an expense in the period in which the related revenue is recognised. If there is no related revenue, the expenses are recognised when the goods are distributed, or related services are rendered. The amount of any write-down of inventories to net realisable value or current replacement cost and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value or current replacement cost, are recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

1.10 Impairment of non-cash-generating assets

Cash-generating assets are assets managed with the objective of generating a commercial return. An asset generates a commercial return when it is deployed in a manner consistent with that adopted by a profit-oriented entity.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset’s future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets managed with the objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm’s length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable service amount is the higher of a non-cash-generating asset’s fair value less costs to sell and its value in use.

Useful life is either:

(a) the period of time over which an asset is expected to be used by the municipality; or
(b) the number of production or similar units expected to be obtained from the asset by the municipality.

Accounting Policies

1.10 Impairment of non-cash-generating assets (continued)

Identification

When the carrying amount of a non-cash-generating asset exceeds its recoverable service amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a non-cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable service amount of the asset.

Irrespective of whether there is any indication of impairment, the entity also test a non-cash-generating intangible asset with an indefinite useful life or a non-cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable service amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

Value in use

Value in use of non-cash-generating assets is the present value of the non-cash-generating assets remaining service potential.

The present value of the remaining service potential of a non-cash-generating assets is determined using the following approach:

Recognition and measurement

If the recoverable service amount of a non-cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

Any impairment loss of a revalued non-cash-generating asset is treated as a revaluation decrease.

When the amount estimated for an impairment loss is greater than the carrying amount of the non-cash-generating asset to which it relates, the municipality recognises a liability only to the extent that is a requirement in the Standards of GRAP.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Reversal of an impairment loss

The municipality assess at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a non-cash-generating asset may no longer exist or may have decreased. If any such indication exists, the municipality estimates the recoverable service amount of that asset.

An impairment loss recognised in prior periods for a non-cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable service amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable service amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a non-cash-generating asset is recognised immediately in surplus or deficit.

Any reversal of an impairment loss of a revalued non-cash-generating asset is treated as a revaluation increase.

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

1.11 Employee benefits

Employee benefits are all forms of consideration given by the municipality in exchange for service rendered by employees.

1.11 Employee benefits (continued)

A qualifying insurance policy is an insurance policy issued by an insurer that is not a related party (as defined in the Standard of GRAP on Related Party Disclosures) of the reporting municipality, if the proceeds of the policy can be used only to pay or fund employee benefits under a defined benefit plan and are not available to the reporting municipality's own creditors (even in liquidation) and cannot be paid to the reporting municipality, unless either:

- the proceeds represent surplus assets that are not needed for the policy to meet all the related employee benefit obligations; or
- the proceeds are returned to the reporting municipality to reimburse it for employee benefits already paid.

Termination benefits are employee benefits payable as a result of either:

- an municipality's decision to terminate an employee's employment before the normal retirement date; or
- an employee's decision to accept voluntary redundancy in exchange for those benefits.

Other long-term employee benefits are employee benefits (other than post-employment benefits and termination benefits) that are not due to be settled within twelve months after the end of the period in which the employees render the related service.

Vested employee benefits are employee benefits that are not conditional on future employment.

Composite social security programmes are established by legislation and operate as multi-employer plans to provide post-employment benefits as well as to provide benefits that are not consideration in exchange for service rendered by employees.

A constructive obligation is an obligation that derives from an municipality's actions where by an established pattern of past practice, published policies or a sufficiently specific current statement, the municipality has indicated to other parties that it will accept certain responsibilities and as a result, the municipality has created a valid expectation on the part of those other parties that it will discharge those responsibilities.

Short-term employee benefits

Short-term employee benefits are employee benefits (other than termination benefits) that are due to be settled within twelve months after the end of the period in which the employees render the related service.

Short-term employee benefits include items such as:

- wages, salaries and social security contributions;
- short-term compensated absences (such as paid annual leave and paid sick leave) where the compensation for the absences is due to be settled within twelve months after the end of the reporting period in which the employees render the related employee service;
- bonus, incentive and performance related payments payable within twelve months after the end of the reporting period in which the employees render the related service; and
- non-monetary benefits (for example, medical care, and free or subsidised goods or services such as housing, cars and cellphones) for current employees.

When an employee has rendered service to the entity during a reporting period, the entity recognise the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service:

- as a liability (accrued expense), after deducting any amount already paid. If the amount already paid exceeds the undiscounted amount of the benefits, the municipality recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the benefits in the cost of an asset.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs. The municipality measure the expected cost of accumulating compensated absences as the additional amount that the entity expects to pay as a result of the unused entitlement that has accumulated at the reporting date.

The entity recognise the expected cost of bonus, incentive and performance related payments when the municipality has a present legal or constructive obligation to make such payments as a result of past events and a reliable estimate of the obligation can be made. A present obligation exists when the entity has no realistic alternative but to make the payments.

Accounting Policies

1.11 Employee benefits (continued)

Post-employment benefits

Post-employment benefits are employee benefits (other than termination benefits) which are payable after the completion of employment.

Post-employment benefit plans are formal or informal arrangements under which an municipality provides post-employment benefits for one or more employees.

Multi-employer plans are defined contribution plans (other than state plans and composite social security programmes) or defined benefit plans (other than state plans) that pool the assets contributed by various entities that are not under common control and use those assets to provide benefits to employees of more than one entity, on the basis that contribution and benefit levels are determined without regard to the identity of the entity that employs the employees concerned.

Post-employment benefits: Defined contribution plans

Defined contribution plans are post-employment benefit plans under which an municipality pays fixed contributions into a separate municipality (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

When an employee has rendered service to the municipality during a reporting period, the municipality recognise the contribution payable to a defined contribution plan in exchange for that service:

- as a liability (accrued expense), after deducting any contribution already paid. If the contribution already paid exceeds the contribution due for service before the reporting date, an municipality recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the contribution in the cost of an asset.

Where contributions to a defined contribution plan do not fall due wholly within twelve months after the end of the reporting period in which the employees render the related service, they are discounted. The rate used to discount reflects the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the obligation.

1.11 Employee benefits (continued)

Post-employment benefits: Defined benefit plans

Defined benefit plans are post-employment benefit plans other than defined contribution plans.

Actuarial gains and losses comprise experience adjustments (the effects of differences between the previous actuarial assumptions and what has actually occurred) and the effects of changes in actuarial assumptions. In measuring its defined benefit liability the municipality recognise actuarial gains and losses in surplus or deficit in the reporting period in which they occur.

Assets held by a long-term employee benefit fund are assets (other than non-transferable financial instruments issued by the reporting municipality) that are held by an municipality (a fund) that is legally separate from the reporting municipality and exists solely to pay or fund employee benefits and are available to be used only to pay or fund employee benefits, are not available to the reporting municipality's own creditors (even in liquidation), and cannot be returned to the reporting municipality, unless either:

- the remaining assets of the fund are sufficient to meet all the related employee benefit obligations of the plan or the reporting municipality; or
- the assets are returned to the reporting municipality to reimburse it for employee benefits already paid.

Current service cost is the increase in the present value of the defined benefit obligation resulting from employee service in the current period.

Interest cost is the increase during a period in the present value of a defined benefit obligation which arises because the benefits are one period closer to settlement.

Past service cost is the change in the present value of the defined benefit obligation for employee service in prior periods, resulting in the current period from the introduction of, or changes to, post-employment benefits or other long-term employee benefits. Past service cost may be either positive (when benefits are introduced or changed so that the present value of the defined benefit obligation increases) or negative (when existing benefits are changed so that the present value of the defined benefit obligation decreases). In measuring its defined benefit liability the entity recognise past service cost as an expense in the reporting period in which the plan is amended.

Plan assets comprise assets held by a long-term employee benefit fund and qualifying insurance policies.

The present value of a defined benefit obligation is the present value, without deducting any plan assets, of expected future payments required to settle the obligation resulting from employee service in the current and prior periods.

The return on plan assets is interest, dividends or similar distributions and other revenue derived from the plan assets, together with realised and unrealised gains or losses on the plan assets, less any costs of administering the plan (other than those included in the actuarial assumptions used to measure the defined benefit obligation) and less any tax payable by the plan itself.

The entity account not only for its legal obligation under the formal terms of a defined benefit plan, but also for any constructive obligation that arises from the municipality's informal practices. Informal practices give rise to a constructive obligation where the municipality has no realistic alternative but to pay employee benefits. An example of a constructive obligation is where a change in the municipality's informal practices would cause unacceptable damage to its relationship with employees.

The amount recognised as a defined benefit liability is the net total of the following amounts:

- the present value of the defined benefit obligation at the reporting date;
- minus the fair value at the reporting date of plan assets (if any) out of which the obligations are to be settled directly;
- plus any liability that may arise as a result of a minimum funding requirement

The amount determined as a defined benefit liability may be negative (an asset). The municipality measure the resulting asset at the lower of:

- the amount determined above; and
- the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan. The present value of these economic benefits is determined using a discount rate which reflects the time value of money.

Any adjustments arising from the limit above is recognised in surplus or deficit.

1.11 Employee benefits (continued)

The municipality determine the present value of defined benefit obligations and the fair value of any plan assets with sufficient regularity such that the amounts recognised in the annual financial statements do not differ materially from the amounts that would be determined at the reporting date.

The municipality recognises the net total of the following amounts in surplus or deficit, except to the extent that another Standard requires or permits their inclusion in the cost of an asset:

- current service cost;
- interest cost;
- the expected return on any plan assets and on any reimbursement rights;
- actuarial gains and losses;
- past service cost;
- the effect of any curtailments or settlements; and
- the effect of applying the limit on a defined benefit asset (negative defined benefit liability).

The municipality uses the Projected Unit Credit Method to determine the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost. The Projected Unit Credit Method (sometimes known as the accrued benefit method pro-rated on service or as the benefit/years of service method) sees each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation.

In determining the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost, an municipality shall attribute benefit to periods of service under the plan’s benefit formula. However, if an employee’s service in later years will lead to a materially higher level of benefit than in earlier years, an municipality shall attribute benefit on a straight-line basis from:

- the date when service by the employee first leads to benefits under the plan (whether or not the benefits are conditional on further service); until
- the date when further service by the employee will lead to no material amount of further benefits under the plan, other than from further salary increases.

Actuarial valuations are conducted on an annual basis by independent actuaries separately for each plan. The results of the valuation are updated for any material transactions and other material changes in circumstances (including changes in market prices and interest rates) up to the reporting date.

The municipality recognises gains or losses on the curtailment or settlement of a defined benefit plan when the curtailment or settlement occurs. The gain or loss on a curtailment or settlement comprises:

- any resulting change in the present value of the defined benefit obligation; and
- any resulting change in the fair value of the plan assets.

Before determining the effect of a curtailment or settlement, the municipality re-measure the obligation (and the related plan assets, if any) using current actuarial assumptions (including current market interest rates and other current market prices).

When it is virtually certain that another party will reimburse some or all of the expenditure required to settle a defined benefit obligation, the right to reimbursement is recognised as a separate asset. The asset is measured at fair value. In all other respects, the asset is treated in the same way as plan assets. In surplus or deficit, the expense relating to a defined benefit plan is [OR is not] presented as the net of the amount recognised for a reimbursement.

The municipality offsets an asset relating to one plan against a liability relating to another plan when the municipality has a legally enforceable right to use a surplus in one plan to settle obligations under the other plan and intends either to settle the obligations on a net basis, or to realise the surplus in one plan and settle its obligation under the other plan simultaneously.

1.11 Employee benefits (continued)

Actuarial assumptions

Actuarial assumptions are unbiased and mutually compatible.

Financial assumptions are based on market expectations, at the reporting date, for the period over which the obligations are to be settled.

The rate used to discount post-employment benefit obligations (both funded and unfunded) reflect the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the post-employment benefit obligations.

Post-employment benefit obligations are measured on a basis that reflects:
- estimated future salary increases;
- the benefits set out in the terms of the plan (or resulting from any constructive obligation that goes beyond those terms) at the reporting date; and
- estimated future changes in the level of any state benefits that affect the benefits payable under a defined benefit plan, if, and only if, either:
- those changes were enacted before the reporting date; or
- past history, or other reliable evidence, indicates that those state benefits will change in some predictable manner, for example, in line with future changes in general price levels or general salary levels.

Assumptions about medical costs take account of estimated future changes in the cost of medical services, resulting from both inflation and specific changes in medical costs.

Other post retirement obligations

The municipality provides post-retirement health care benefits, housing subsidies and gratuities upon retirement to some retirees.

The entitlement to post-retirement health care benefits is based on the employee remaining in service up to retirement age and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment. Independent qualified actuaries carry out valuations of these obligations. The municipality also provides a gratuity and housing subsidy on retirement to certain employees. An annual charge to income is made to cover both these liabilities.

The amount recognised as a liability for other long-term employee benefits is the net total of the following amounts:
- the present value of the defined benefit obligation at the reporting date;
- minus the fair value at the reporting date of plan assets (if any) out of which the obligations are to be settled directly.

The municipality shall recognise the net total of the following amounts as expense or revenue, except to the extent that another Standard requires or permits their inclusion in the cost of an asset:
- current service cost;
- interest cost;
- the expected return on any plan assets and on any reimbursement right recognised as an asset;
- actuarial gains and losses, which shall all be recognised immediately;
- past service cost, which shall all be recognised immediately; and
- the effect of any curtailments or settlements.

1.11 Employee benefits (continued)

Termination benefits

The municipality recognises termination benefits as a liability and an expense when the entity is demonstrably committed to either:

- terminate the employment of an employee or group of employees before the normal retirement date; or
- provide termination benefits as a result of an offer made in order to encourage voluntary redundancy.

The municipality is demonstrably committed to a termination when the entity has a detailed formal plan for the termination and is without realistic possibility of withdrawal. The detailed plan includes [as a minimum]:

- the location, function, and approximate number of employees whose services are to be terminated;
- the termination benefits for each job classification or function; and
- the time at which the plan will be implemented.

Implementation begins as soon as possible and the period of time to complete implementation is such that material changes to the plan are not likely.

Where termination benefits fall due more than 12 months after the reporting date, they are discounted using an appropriate discount rate. The rate used to discount the benefit reflects the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the benefit.

In the case of an offer made to encourage voluntary redundancy, the measurement of termination benefits shall be based on the number of employees expected to accept the offer.

1.12 Provisions and contingencies

Provisions are recognised when:

- the municipality has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Where the effect of time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised when, and only when, it is virtually certain that reimbursement will be received if the municipality settles the obligation. The reimbursement is treated as a separate asset. The amount recognised for the reimbursement does not exceed the amount of the provision.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised as an interest expense.

A provision is used only for expenditures for which the provision was originally recognised.

Provisions are not recognised for future operating deficits.

If an entity has a contract that is onerous, the present obligation (net of recoveries) under the contract is recognised and measured as a provision.

1.12 Provisions and contingencies (continued)

A constructive obligation to restructure arises only when an entity:
- has a detailed formal plan for the restructuring, identifying at least:
  - the activity/operating unit or part of a activity/operating unit concerned;
  - the principal locations affected;
  - the location, function, and approximate number of employees who will be compensated for services being terminated;
  - the expenditures that will be undertaken; and
  - when the plan will be implemented; and
- has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

A restructuring provision includes only the direct expenditures arising from the restructuring, which are those that are both:
- necessarily entailed by the restructuring; and
- not associated with the ongoing activities of the municipality

No obligation arises as a consequence of the sale or transfer of an operation until the municipality is committed to the sale or transfer, that is, there is a binding arrangement.

After their initial recognition contingent liabilities recognised in entity combinations that are recognised separately are subsequently measured at the higher of:
- the amount that would be recognised as a provision; and
- the amount initially recognised less cumulative amortisation.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 28.

Decommissioning, restoration and similar liability

Changes in the measurement of an existing decommissioning, restoration and similar liability that result from changes in the estimated timing or amount of the outflow of resources embodying economic benefits or service potential required to settle the obligation, or a change in the discount rate, is accounted for as follows:

If the related asset is measured using the cost model:
- changes in the liability is added to, or deducted from, the cost of the related asset in the current period.
- the amount deducted from the cost of the asset does not exceed its carrying amount. If a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit.
- if the adjustment results in an addition to the cost of an asset, the entity consider whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If there is such an indication, the entity test the asset for impairment by estimating its recoverable amount or recoverable service amount, and account for any impairment loss, in accordance with the accounting policy on impairment of assets as described in accounting policy and 1.10.

The adjusted depreciable amount of the asset is depreciated over its useful life. Therefore, once the related asset has reached the end of its useful life, all subsequent changes in the liability is recognised in surplus or deficit as they occur. This applies under both the cost model and the revaluation model.

The periodic unwinding of the discount is recognised in surplus or deficit as a finance cost as it occurs.

1.13 Commitments

Items are classified as commitments when an entity has committed itself to future transactions that will normally result in the outflow of cash.

Disclosures are required in respect of unrecognised contractual commitments.

Commitments for which disclosure is necessary to achieve a fair presentation should be disclosed in a note to the financial statements, if both the following criteria are met:
- Contracts should be non-cancellable or only cancellable at significant cost (for example, contracts for computer or building maintenance services); and
- Contracts should relate to something other than the routine, steady, state business of the entity – therefore salary commitments relating to employment contracts or social security benefit commitments are excluded.

Accounting Policies

1.14 Revenue from exchange transactions

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

An exchange transaction is one in which the municipality receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts.

Sale of goods

Revenue from the sale of goods is recognised when all the following conditions have been satisfied:
- the municipality has transferred to the purchaser the significant risks and rewards of ownership of the goods;
- the municipality retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Rendering of services

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

When services are performed by an indeterminate number of acts over a specified time frame, revenue is recognised on a straight line basis over the specified time frame unless there is evidence that some other method better represents the stage of completion. When a specific act is much more significant than any other acts, the recognition of revenue is postponed until the significant act is executed.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

Service revenue is recognised by reference to the stage of completion of the transaction at the reporting date. Stage of completion is determined by the proportion that costs incurred to date bear to the total estimated costs of the transaction.

Interest

Revenue arising from the use by others of entity assets yielding interest, royalties and dividends or similar distributions is recognised when:
- It is probable that the economic benefits or service potential associated with the transaction will flow to the municipality, and
- The amount of the revenue can be measured reliably.

Interest is recognised, in surplus or deficit, using the effective interest rate method.

1.15 Revenue from non-exchange transactions

Non-exchange transactions are defined as transactions where the entity receives value from another entity without directly giving approximately equal value in exchange.

Accounting Policies

1.15 Revenue from non-exchange transactions (continued)

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm’s length transaction.

Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

Rates, including collection charges and penalties interest

Revenue from rates, including collection charges and penalty interest, is recognised when:
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the amount of the revenue can be measured reliably; and
- there has been compliance with the relevant legal requirements.

Changes to property values during a reporting period are valued by a suitably qualified valuator and adjustments are made to rates revenue, based on a time proportion basis. Adjustments to rates revenue already recognised are processed or additional rates revenue is recognised.

Fines

Revenue from the issuing of fines is recognised when:
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- the amount of the revenue can be measured reliably.

The municipality has two types of fines: spot fines and summonses. There is uncertainty regarding the probability of the flow of economic benefits or service potential in respect of spot fines as these fines are usually not given directly to an offender. Further legal processes have to be undertaken before the spot fine is enforceable. In respect of summonses the public prosecutor can decide whether to waive the fine, reduce it or prosecute for non-payment by the offender. An estimate is made for the revenue amount collected from spot fines and summonses based on past experience of amounts collected. Where a reliable estimate cannot be made of revenue from summonses, the revenue from summonses is recognised when the public prosecutor pays over to the entity the cash actually collected on summonses issued.

Government grants

Government grants are recognised as revenue when:
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality,
- the amount of the revenue can be measured reliably, and
- to the extent that there has been compliance with any restrictions associated with the grant.

The municipality assesses the degree of certainty attached to the flow of future economic benefits or service potential on the basis of the available evidence. Certain grants payable by one level of government to another are subject to the availability of funds. Revenue from these grants is only recognised when it is probable that the economic benefits or service potential associated with the transaction will flow to the entity. An announcement at the beginning of a financial year that grants may be available for qualifying entities in accordance with an agreed programme may not be sufficient evidence of the probability of the flow. Revenue is then only recognised once evidence of the probability of the flow becomes available.

Restrictions on government grants may result in such revenue being recognised on a time proportion basis. Where there is no restriction on the period, such revenue is recognised on receipt or when the Act becomes effective, which-ever is earlier.

When government remit grants on a re-imbursement basis, revenue is recognised when the qualifying expense has been incurred and to the extent that any other restrictions have been complied with.

Accounting Policies

1.15 Revenue from non-exchange transactions (continued)

Other grants and donations

Other grants and donations are recognised as revenue when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the amount of the revenue can be measured reliably; and
- to the extent that there has been compliance with any restrictions associated with the grant.

If goods in-kind are received without conditions attached, revenue is recognised immediately. If conditions are attached, a liability is recognised, which is reduced and revenue recognised as the conditions are satisfied.

1.16 Investment income

Investment income is recognised on a time-proportion basis using the effective interest method.

1.17 Borrowing costs

Borrowing costs are interest and other expenses incurred by an entity in connection with the borrowing of funds.

Borrowing costs are recognised as an expense in the period in which they are incurred.

1.18 Comparative figures

Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current year.

1.19 Unauthorised expenditure

Unauthorised expenditure means:

- overspending of a vote or a main division within a vote; and
- expenditure not in accordance with the purpose of a vote or, in the case of a main division, not in accordance with the purpose of the main division.

All expenditure relating to unauthorised expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.20 Fruitless and wasteful expenditure

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.21 Irregular expenditure

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the economic entity’s supply chain management policy.

Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

1.22 Budget information

Municipality are typically subject to budgetary limits in the form of appropriations or budget authorisations (or equivalent), which is given effect through authorising legislation, appropriation or similar.

1.22 Budget information (continued)

General purpose financial reporting by municipality shall provide information on whether resources were obtained and used in accordance with the legally adopted budget.

The approved budget is prepared on a accrual basis and presented by economic classification linked to performance outcome objectives.

The approved budget covers the fiscal period from 01/07/2015 to 30/06/2016.

The annual financial statements and the budget are on the same basis of accounting therefore a comparison with the budgeted amounts for the reporting period have been included in the Statement of comparison of budget and actual amounts.

1.23 Related parties

Management are those persons responsible for planning, directing and controlling the activities of the municipality, including those charged with the governance of the municipality in accordance with legislation, in instances where they are required to perform such functions.

Close members of the family of a person are considered to be those family members who may be expected to influence, or be influenced by, that management in their dealings with the municipality.

Only transactions with related parties not at arm’s length or not in the ordinary course of business are disclosed.

2. New standards and interpretations

2.1 Standards and interpretations effective and adopted in the current year

In the current year, the municipality has adopted the following standards and interpretations that are effective for the current financial year and that are relevant to its operations:

GRAP 18: Segment Reporting

Segments are identified by the way in which information is reported to management, both for purposes of assessing performance and making decisions about how future resources will be allocated to the various activities undertaken by the municipality. The major classifications of activities identified in budget documentation will usually reflect the segments for which an entity reports information to management.

Segment information is either presented based on service or geographical segments. Service segments relate to a distinguishable component of an entity that provides specific outputs or achieves particular operating objectives that are in line with the municipality's overall mission. Geographical segments relate to specific outputs generated, or particular objectives achieved, by an entity within a particular region.

This Standard has been approved by the Board but its effective date has not yet been determined by the Minister of Finance. The effective date indicated is a provisional date and could change depending on the decision of the Minister of Finance.

Directive 2 - Transitional provisions for public entities, municipal entities and constitutional institutions, states that no comparative segment information need to be presented on initial adoption of this Standard.

Directive 3 - Transitional provisions for high capacity municipalities states that no comparative segment information need to be presented on initial adoption of the Standard. Where items have no been recognised as a result of transitional provisions under the Standard of GRAP on Property, Plant and Equipment, recognition requirements of this Standard would not apply to such items until the transitional provision in that Standard expires.

Directive 4 – Transitional provisions for medium and low capacity municipalities states that no comparative segment information need to be presented on initial adoption of the Standard. Where items have not been recognised as a result of transitional provisions un the Standard of GRAP on Property, Plant and Equipment and the Standard of GRAP on Agriculture, the recognition requirements of the Standard would not apply to such items until the transitional provision in that standard expires.

The effective date of the standard is not yet set by the Minister of Finance.

The municipality expects to adopt the standard for the first time when the Minister sets the effective date for the standard.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

GRAP 32: Service Concession Arrangements: Grantor

The objective of this Standard is: to prescribe the accounting for service concession arrangements by the grantor, a public sector entity.

It furthermore covers: Definitions, recognition and measurement of a service concession asset, recognition and measurement of liabilities, other liabilities, contingent liabilities, and contingent assets, other revenues, presentation and disclosure, transitional provisions, as well as the effective date.

The effective date of the standard is not yet set by the Minister of Finance.

The municipality expects to adopt the standard for the first time when the Minister sets the effective date for the standard.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

GRAP 108: Statutory Receivables

The objective of this Standard is: to prescribe accounting requirements for the recognition, measurement, presentation and disclosure of statutory receivables.

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

It furthermore covers: Definitions, recognition, derecognition, measurement, presentation and disclosure, transitional provisions, as well as the effective date.

The effective date of the standard is not yet set by the Minister of Finance.

The municipality expects to adopt the standard for the first time when the Minister sets the effective date for the standard.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

IGRAP 17: Service Concession Arrangements where a Grantor Controls a Significant Residual Interest in an Asset

This Interpretation of the Standards of GRAP provides guidance to the grantor where it has entered into a service concession arrangement, but only controls, through ownership, beneficial entitlement or otherwise, a significant residual interest in a service concession asset at the end of the arrangement, where the arrangement does not constitute a lease. This Interpretation of the Standards of GRAP shall not be applied by analogy to other types of transactions or arrangements.

A service concession arrangement is a contractual arrangement between a grantor and an operator in which the operator uses the service concession asset to provide a mandated function on behalf of the grantor for a specified period of time. The operator is compensated for its services over the period of the service concession arrangement, either through payments, or through receiving a right to earn revenue from third party users of the service concession asset, or the operator is given access to another revenue-generating asset of the grantor for its use.

Before the grantor can recognise a service concession asset in accordance with the Standard of GRAP on Service Concession Arrangements: Grantor, both the criteria as noted in paragraph .01 of this Interpretation of the Standards of GRAP need to be met. In some service concession arrangements, the grantor only controls the residual interest in the service concession asset at the end of the arrangement, and can therefore not recognise the service concession asset in terms of the Standard of GRAP on Service Concession Arrangements: Grantor.

A consensus is reached, in this Interpretation of the Standards of GRAP, on the recognition of the performance obligation and the right to receive a significant interest in a service concession asset.

The effective date of the standard is not yet set by the Minister of Finance.

The municipality expects to adopt the standard for the first time when the Minister sets the effective date for the standard.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

GRAP 16 (as amended 2015): Investment Property

Based on the feedback received as part of the post-implementation review, the Board agreed to reconsider certain principles in GRAP 16 and GRAP 17. In particular, the Board agreed to:

- Review the principles and explanations related to the distinction between investment property and property, plant and equipment.
- Consider whether an indicator-based assessment of useful lives of assets could be introduced.
- Clarify the wording related to the use of external valuers.
- Introduce more specific presentation and disclosure requirements for capital work-in-progress.
- Review the encouraged disclosures and assess whether any should be made mandatory or deleted.
- Require separate presentation of expenditure incurred on repairs and maintenance in the financial statements.

Various amendments were made to the Standard, affecting Definitions, Identification, Disclosure, Effective date and Transitional provisions.

The effective date of the standard is for years beginning on or after 01 April 2016.

The municipality expects to adopt the standard for the first time in the 2017 annual financial statements.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

GRAP 17 (as amended 2015): Property, Plant and Equipment

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

Based on the feedback received as part of the post-implementation review, the Board agreed to reconsider certain principles in GRAP 16 and GRAP 17. In particular, the Board agreed to:

- Review the principles and explanations related to the distinction between investment property and property, plant and equipment.
- Consider whether an indicator-based assessment of useful lives of assets could be introduced.
- Clarify the wording related to the use of external valuers.
- Introduce more specific presentation and disclosure requirements for capital work-in-progress.
- Review the encouraged disclosures and assess whether any should be made mandatory or deleted.
- Require separate presentation of expenditure incurred on repairs and maintenance in the financial statements.

Amendments identified as part of the post-implementation review, affected the following areas:

- Indicator-based assessment of the useful lives of assets
- Use of external valuers
- Encouraged disclosures
- Capital work-in-progress
- Expenditure incurred on repairs and maintenance

The effective date of the standard is for years beginning on or after 01 April 2016.

The municipality expects to adopt the standard for the first time in the 2017 annual financial statements.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

GRAP 109: Accounting by Principals and Agents

The objective of this Standard is to outline principles to be used by an entity to assess whether it is party to a principal-agent arrangement, and whether it is a principal or an agent in undertaking transactions in terms of such an arrangement. The Standard does not introduce new recognition or measurement requirements for revenue, expenses, assets and/or liabilities that result from principal-agent arrangements. The Standard does however provide guidance on whether revenue, expenses, assets and/or liabilities should be recognised by an agent or a principal, as well as prescribe what information should be disclosed when an entity is a principal or an agent.

It furthermore covers Definitions, Identifying whether an entity is a principal or agent, Accounting by a principal or agent, Presentation, Disclosure, Transitional provisions and Effective date.

The effective date of the standard is not yet set by the Minister of Finance.

The municipality expects to adopt the standard for the first time when the Minister sets the effective date for the standard.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

GRAP 21 (as amended 2015): Impairment of non-cash-generating assets

The Board agreed to include a research project on its work programme to review GRAP 21 and GRAP 26 to assess whether the principles in these Standards could be simplified and streamlined. As part of its research project, the Board considered the following aspects which led to the proposed amendments included in this Exposure Draft:

- simplifying the approach to impairment to make it clearer when an asset is cash generating or non-cash-generating;
- assessing the feasibility of one measurement approach for non-cash-generating assets; and
- assessing the feasibility of combining the two Standards.

Summary of changes:

The changes to the Standard of GRAP on Impairment of Non-cash-generating Assets are outlined below:

General definitions:

The definition of cash-generating assets has been amended to be consistent with the amendments made to clarify the objective of cash-generating assets and non-cash-generating assets.

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

Cash generating assets and non-cash-generating assets:

Additional commentary has been added to clarify the objective of cash-generating assets and non-cash-generating assets.

Identifying an asset that may be impaired:

Additional commentary has been added to clarify that physical damage triggers impairment of an asset when it results in a permanent or a significant decline in the potential of an asset.

Reversing an impairment loss:

An indicator has been added that the restoration of an asset's service potential following physical damage to the asset could indicate a reversal in an impairment loss.

Additional commentary has been added to clarify that restoration of an asset's service potential as a result of physical damage is an indication that an impairment loss recognised in prior periods may no longer exist or may have decreased.

Disclosures:

The requirement to disclose the criteria developed to distinguish non-cash-generating assets from cash-generating assets has been amended to be consistent with the amendments made to clarify the objective of non-cash-generating assets and cash-generating assets.

The effective date of the standard is for years beginning on or after 01 April 2017.

The municipality expects to adopt the standard for the first time in the 2018 annual financial statements.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

GRAP 26 (as amended 2015): Impairment of cash-generating assets

The Board agreed to include a research project on its work programme to review GRAP 21 and GRAP 26 to assess whether the principles in these Standards could be simplified and streamlined. As part of its research project, the Board considered the following aspects which led to the proposed amendments included in this Exposure Draft:

- simplifying the approach to impairment to make it clearer when an asset is cash generating or non-cash-generating;
- assessing the feasibility of one measurement approach for non-cash-generating assets; and
- assessing the feasibility of combining the two Standards.

Summary of changes:

The changes to the Standard of GRAP on Impairment of Cash-generating Assets are outlined below:

General definitions:

The definitions of cash-generating assets and cash-generating unit have been amended to be consistent with the amendments made to clarify the objective of cash-generating assets and non-cash-generating assets below.

Cash generating assets and non-cash-generating assets:

Additional commentary has been added to clarify the objective of cash-generating assets and non-cash-generating assets.

Disclosures:

The requirement to disclose the criteria developed to distinguish cash-generating assets from non-cash-generating assets has been amended to be consistent with the amendments made to clarify the objective of non-cash-generating assets and cash-generating assets.

The effective date of the standard is for years beginning on or after 01 April 2017.

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

The municipality expects to adopt the standard for the first time in the 2018 annual financial statements.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

Directive 12: The Selection of an Appropriate Reporting Framework by Public Entities

Historically, public entities have prepared financial statements in accordance with generally recognised accounting practice, unless the Accounting Standards Board (the Board) approved the application of generally accepted accounting practice for that entity. “Generally accepted accounting practice” has been taken to mean Statements of Generally Accepted Accounting Practice (Statements of GAAP), or for certain entities, International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board. Since Statements of GAAP have been withdrawn from 1 December 2012, public entities will be required to apply another reporting framework in the future.

The purpose of this Directive is to prescribe the criteria to be applied by public entities in selecting and applying an appropriate reporting framework.

The effective date of the standard is for years beginning on or after 01 April 2018.

The municipality expects to adopt the standard for the first time in the 2019 annual financial statements.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

3. Property, plant and equipment

	2016			2015		
	Cost / Valuation	**Accumulated depreciation and accumulated impairment**	**Carrying value**	**Cost / Valuation**	**Accumulated depreciation and accumulated impairment**	**Carrying value**
Buildings	45,357,999	(23,126,812)	22,231,187	45,357,999	(21,688,831)	23,669,168
Infrastructure	1,126,298	(545,549)	580,749	1,126,298	(517,124)	609,174
Other property, plant and equipment	38,177,103	(15,637,073)	22,540,030	34,371,966	(12,159,424)	22,212,542
Community assets	48,197,119	(21,966,392)	26,230,727	48,197,119	(20,468,600)	27,728,519
Work in progress	16,021,134	-	16,021,134	5,664,433	-	5,664,433
Total	**148,879,653**	**(61,275,826)**	**87,603,827**	**134,717,815**	**(54,833,979)**	**79,883,836**

Notes to the Annual Financial Statements

Figures in Rand

3. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2016

	Opening balance	Additions	Derecognition of assets	Depreciation	Total
Buildings	23,669,168	-	-	(1,437,981)	22,231,187
Infrastructure	609,174	-	-	(28,425)	580,749
Other property, plant and equipment	22,212,542	5,089,225	(1,054)	(4,760,683)	22,540,030
Community assets	27,728,519	-	-	(1,497,792)	26,230,727
Work in progress	5,664,433	10,356,701	-	-	16,021,134
	79,883,836	**15,445,926**	**(1,054)**	**(7,724,881)**	**87,603,827**

Reconciliation of property, plant and equipment - 2015

	Opening balance	Additions	Depreciation	Impairment loss	Impairment reversal	Total
Buildings	24,035,430	-	(366,262)	-	-	23,669,168
Infrastructure	672,211	-	(63,037)	-	-	609,174
Other property, plant and equipment	11,172,117	13,892,747	(2,964,649)	(620)	112,947	22,212,542
Community assets	28,420,409	-	(691,890)	-	-	27,728,519
Work in progress	5,137,757	926,676	-	(400,000)	-	5,664,433
	69,437,924	**14,819,423**	**(4,085,838)**	**(400,620)**	**112,947**	**79,883,836**

Pledged as security

The municipality does not have any assets pledged as security.

Notes to the Annual Financial Statements

Figures in Rand	2016	2015

4. Investment property

	2016			2015		
	Cost / Valuation	**Accumulated depreciation and accumulated impairment**	**Carrying value**	**Cost / Valuation**	**Accumulated depreciation and accumulated impairment**	**Carrying value**
Investment property	959,798	-	959,798	895,416	-	895,416

Reconciliation of investment property - 2016

	Opening balance	**Fair value adjustments**	**Total**
Investment property	895,416	64,382	959,798

5. Intangible assets

	2016			2015		
	Cost / Valuation	**Accumulated amortisation and accumulated impairment**	**Carrying value**	**Cost / Valuation**	**Accumulated amortisation and accumulated impairment**	**Carrying value**
Computer software, internally generated	210,336	(163,799)	46,537	1,118,668	(1,001,743)	116,925

Reconciliation of intangible assets - 2016

	Opening balance	**Derecognition**	**Amortisation**	**Total**
Computer software	116,925	(84)	(70,304)	46,537

Reconciliation of intangible assets - 2015

	Opening balance	**Additions**	**Amortisation**	**Total**
Computer software	145,385	46,000	(74,460)	116,925

6. Inventories

Consumable stores	218,767	257,034
Stationery	454,813	389,194
Refreshments	15,090	5,387
	688,670	**651,615**

7. Receivables from exchange transactions

Collection agents	92,919	92,919
Salaries control	127,049	54,766
Rentals	279,416	141,801
Other debtors	91,589	91,589
	590,973	**381,075**

Notes to the Annual Financial Statements

Figures in Rand	2016	2015

8. VAT receivable

VAT	7,756,397	9,855,793

9. Consumer debtors

Gross balances		
Rates	100,115,949	89,793,407
Traffic fines	1,085,271	691,117
	101,201,220	**90,484,524**
Less: Allowance for impairment		
Rates	(69,689,297)	(69,689,297)
Traffic fines	(861,349)	(537,063)
	(70,550,646)	**(70,226,360)**
Net balance		
Rates	30,426,652	20,104,110
Traffic fines	223,922	154,054
	30,650,574	**20,258,164**
Rates		
Current (0 -30 days)	1,863,611	2,532,540
31 - 60 days	923,539	3,038,577
61 - 90 days	918,027	3,422,012
91 - 120 days	912,516	4,231,400
121+ days	95,498,256	76,568,878
Less: Allowance for impairment	(69,689,297)	(69,689,297)
	30,426,652	**20,104,110**
Traffic fines		
Current (0 -30 days)	22,950	16,875
31 - 60 days	17,285	14,275
61 - 90 days	33,113	5,013
91 - 120 days	28,770	69,920
121+ days	983,153	585,034
Less: Allowance for impairment	(861,349)	(537,063)
	223,922	**154,054**
Reconciliation of allowance for impairment		
Balance at beginning of the year	(70,226,360)	-
Contributions to allowance	(324,286)	(70,226,360)
	(70,550,646)	**(70,226,360)**

10. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand	365	132
Bank balances	10,524,632	24,271,714
Short-term deposits	109,316,988	61,300,239
	119,841,985	**85,572,085**

Notes to the Annual Financial Statements

Figures in Rand	2016	2015

10. Cash and cash equivalents (continued)

The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	30 June 2016	30 June 2015	30 June 2014	30 June 2016	30 June 2015	30 June 2014
Nedbank current account - 1013906551	11,364,482	24,847,971	21,983,537	10,524,632	24,271,714	21,983,537
Nedbank Call account - 418909202001	109,317,188	61,300,239	28,227,443	109,316,988	61,300,239	28,227,443
Cash on hand	365	132	573	365	132	573
Total	**120,682,035**	**86,148,342**	**50,211,553**	**119,841,985**	**85,572,085**	**50,211,553**

11. Payables from exchange transactions

	2016	2015
Trade payables	10,570,905	8,645,174
Income received in advance	3,000,176	56,311
Other payables	287,125	158,898
Retentions	7,684,682	5,955,279
Bonus provisions	769,392	703,349
	22,312,280	**15,519,011**

12. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

	2016	2015
Unspent conditional grants and receipts		
Municipal Finance Management Grant (MFMG)	33	5,693
Municipal Infrastructure Grant (MIG)	4,919,371	17,515,385
Independent Development Corporation grant (IDC)	-	400,000
Capricorn District Municipality grant (CDM)	900,000	900,000
	5,819,404	**18,821,078**

Movement during the year

	2016	2015
Balance at the beginning of the year	18,821,078	8,535,454
Additions during the year	46,787,289	32,326,998
Income recognition during the year	(59,788,963)	(22,041,374)
	5,819,404	**18,821,078**

13. Provisions

Reconciliation of provisions - 2016

	Opening Balance	Additions	Total
Staff leave	3,420,240	40,911	3,461,151

Reconciliation of provisions - 2015

	Opening Balance	Additions	Total
Staff leave	3,111,033	309,207	3,420,240

Notes to the Annual Financial Statements

Figures in Rand	2016	2015

14. Finance lease obligation

Minimum lease payments due		
- within one year	-	252,174
	-	252,174
less: future finance charges	-	8,476
Present value of minimum lease payments	**-**	**260,650**

The liability is secured by office equipment under a deemed finance lease with a carrying value of R 260 650 The effective interest rate is fixed at 10% annually and is repayable in 36 equal instalments of which the first was paid in January 2013 . The last instalment is payable during November 2015.

15. Employee benefit obligations

Movement in the net liability recognised in the statement of financial position are as follows:

Carrying value		
Openig balance	(936,361)	(1,183,832)
Current service costs	(131,521)	(174,718)
Interest costs	(77,830)	(97,912)
Expected benefit vesting	41,422	36,432
Actuarial loss/(gain)	(109,086)	483,669
	(1,213,376)	**(936,361)**

Net expense recognised in the statement of financial performance

Current service costs	(131,521)	(174,718)
Interest costs	(77,830)	(97,912)
Expected benefit vesting	41,422	36,432
Actuarial (gains) losses	(109,086)	483,669
	(277,015)	**247,471**

16. Revenue

Rental of facilities and equipment	383,765	392,280
Interest received (trading)	2,904,879	1,491,332
Other income	3,126,848	2,571,119
Interest received - investment	8,065,666	4,105,784
Property rates	8,824,170	21,908,856
Traffic fines	653,238	808,374
Government grants & subsidies	172,620,674	120,160,376
	196,579,240	**151,438,121**

The amount included in revenue arising from exchanges of goods or services are as follows:		
Rental of facilities and equipment	383,765	392,280
Interest received (trading)	2,904,879	1,491,332
Other income	3,126,848	2,571,119
Interest received - investment	8,065,666	4,105,784
	14,481,158	**8,560,515**

Notes to the Annual Financial Statements

Figures in Rand	2016	2015

16. Revenue (continued)

The amount included in revenue arising from non-exchange transactions is as follows:		
Taxation revenue		
Property rates	8,824,170	21,908,856
Traffic fines	653,238	808,374
Transfer revenue		
Government grants & subsidies	172,620,674	120,160,376
	182,098,082	**142,877,606**

17. Investment revenue

Interest revenue		
Bank	8,065,666	4,105,784

18. Property rates

Rates received

Residential	8,824,170	21,908,856

19. Government grants and subsidies

Operating grants		
Equitable share	122,831,711	98,119,000
Finance management grant	1,799,967	1,794,307
Municipal infrastructure grant	45,301,996	17,777,069
Municipal systems improvement grant	930,000	934,000
EPWP grant	1,357,000	1,536,000
Independent Development Corporation grant	400,000	-
	172,620,674	**120,160,376**

Conditional and Unconditional

Included in above are the following grants and subsidies received:

Conditional grants received	59,788,963	22,041,376
Unconditional grants received	112,831,711	98,119,000
	172,620,674	**120,160,376**

Equitable Share

Finance management grant (FMG)

Balance unspent at beginning of year	5,693	-
Current-year receipts	1,794,307	1,800,000
Conditions met - transferred to revenue	(1,799,967)	(1,794,307)
	33	**5,693**

Conditions still to be met - remain liabilities (see note 12).

Provide explanations of conditions still to be met and other relevant information.

Figures in Rand	2016	2015

19. Government grants and subsidies (continued)

Municipal infrastructure grant (MIG)

Balance unspent at beginning of year	17,515,385	8,135,454
Current-year receipts	32,705,982	27,157,000
Conditions met - transferred to revenue	(45,301,996)	(17,777,069)
	4,919,371	**17,515,385**

Conditions still to be met - remain liabilities (see note 12).

Provide explanations of conditions still to be met and other relevant information.

Municipal systems improvement grant (MSIG)

Current-year receipts	930,000	934,000
Conditions met - transferred to revenue	(930,000)	(934,000)
	-	**-**

Conditions still to be met - remain liabilities (see note 12).

Provide explanations of conditions still to be met and other relevant information.

Expanded Public Works Programme grant (EPWP)

Current-year receipts	1,357,000	1,536,000
Conditions met - transferred to revenue	(1,357,000)	(1,536,000)
	-	**-**

Conditions still to be met - remain liabilities (see note 12).

Provide explanations of conditions still to be met and other relevant information.

Independent Development Corporation grant (IDC)

Balance unspent at beginning of year	400,000	-
Current-year receipts	-	400,000
Conditions met - transferred to revenue	(400,000)	-
	-	**400,000**

Conditions still to be met - remain liabilities (see note 12).

Provide explanations of conditions still to be met and other relevant information.

Capricorn District Municipality grant (CDM)

Balance unspent at beginning of year	900,000	-
Current-year receipts: Audit of community facilities	-	400,000
Current-year receipts: Intergrated transport plan	-	500,000
	900,000	**900,000**

Conditions still to be met - remain liabilities (see note 12).

Provide explanations of conditions still to be met and other relevant information.

Figures in Rand	2016	2015

20. Employee related costs

Acting allowance	911,762	171,833
Basic salary	22,687,335	19,192,089
Bonus	1,681,275	1,468,058
Cellphone allowance	450,367	359,800
Housing benefits and allowances	198,330	248,202
Medical aid	1,348,192	1,063,079
Redemption of leave	133,467	265,222
Special operations - Traffic	-	68,567
Transport/Vehicle allowance	3,061,473	2,730,664
Clothing allowance	4,887	11,403
Overtime payments	872,687	717,574
Acting allowances	10,288	9,282
Pension fund	4,484,382	4,215,351
Defined contribution plans	2,301,600	2,375,058
Skills Development Levy (SDL)	198,169	77,720
Standby allowance	50,000	44,500
Travel and susistence allowance	2,652,240	1,649,615
Unemployment Insurance Fund (UIF)	174,165	153,149
	41,220,619	**34,821,166**

Remuneration of municipal manager

Annual Remuneration	722,343	678,252
Travel Allowance, Housing and Cellphone allowance	288,000	288,000
Backpay	32,292	28,968
Contributions to UIF, Medical and Pension Funds	273,200	132,951
Subsistence allowance	21,594	26,967
	1,337,429	**1,155,138**

Remuneration of chief finance officer

Annual Remuneration	671,828	618,432
Travel Allowance, Housing and Cellphone Allowance	127,756	155,200
Backpay	28,112	25,218
Contributions to UIF, Medical and Pension Funds	201,622	185,347
Subsistence allowance	27,540	6,352
	1,056,858	**990,549**

Remuneration of Director: Technical Services

Annual Remuneration	-	38,323
Travel Allowance, Housing and Cellphone Allowance	-	15,850
Backpay	-	4,148
Contributions to UIF, Medical and Pension Funds	-	7,620
	-	**65,941**

Notes to the Annual Financial Statements

Figures in Rand	2016	2015

20. Employee related costs (continued)

Remuneration of Director: Corporate Services

Annual Remuneration	10,347	686,717
Travel Allowance, Housing and Cellphone Allowance	-	10,200
Backpay	-	22,559
Contributions to UIF, Medical and Pension Funds	918	159,613
Redemption of leave	65,529	-
Subsistence allowance	-	33,621
	76,794	**912,710**

Remuneration of Director: Community Services

Annual Remuneration	37,899	442,892
Travel Allowance, Housing and Cellphone Allowance	20,515	239,952
Backpay	-	20,740
Contributions to UIF, Medical and Pension Funds	7,820	88,057
Redemption of leave	15,854	-
Subsistence allowance	11,303	56,628
	93,391	**848,269**

Remuneration of Director: Economic Development

Annual Remuneration	463,351	287,793
Travel Allowance, Housing and Cellphone Allowance	244,120	84,981
Backpay	138,636	-
Contributions to UIF, Medical and Pension Funds	93,117	44,289
Subsistence allowance	64,650	-
	1,003,874	**417,063**

Notes to the Annual Financial Statements

Figures in Rand	2016	2015

21. Remuneration of councillors

Annual Remuneration	7,057,441	6,904,073
Travel and Cellphone Allowance	3,168,381	2,972,926
UIF, Medical Aid and Pension Fund	1,015,512	1,043,077
Skills Development Levy	109,661	108,919
Subsistence Allowance	1,383,418	1,097,098
	12,734,413	**12,126,093**

Remuneration of the Mayor

Annual Remuneration	501,228	482,582
Travel, Car and Cellphone allowance	214,281	203,646
Contribution to UIF, Medical aid, SDL and Pension fund	78,362	73,287
	793,871	**759,515**

Remuneration of the Speaker

Annual Remuneration	400,983	384,224
Travel, car and cellphone allowance	176,469	176,999
Contribution to UIF, Medical aid, SDL and Pension fund	78,362	56,454
	655,814	**617,677**

Remuneration of Chief whip

Annual Remuneration	375,923	361,937
Travel, Car and Cellphone allowance	224,903	217,291
Contribution to UIF, Medical aid, SDL and Pension fund	58,802	54,995
	659,628	**634,223**

Remuneration of Executive Committee

Annual Remuneration	1,242,662	1,153,661
Travel, Car, and Cellphone allowance	945,441	826,951
Contribution to UIF, Medical aid, SDL and Pension fund	194,029	173,922
	2,382,132	**2,154,534**

Reconciliation of councillors - 2016

	Annual remunaration	Travel allowance	Cellphone allowance	Subsistence allowance	Company contributions	Backpay	Total
Ntsewa L.N	185,817	71,230	24,468	13,618	30,317	8,299	333,749
Lepadima M.L	185,817	71,230	24,468	6,634	30,323	8,299	326,771
Phaka T.G	165,902	63,597	24,468	38,453	27,072	6,772	326,264
Moloto	-	-	-	43,800	-	-	43,800
Kgatla K.E	144,792	55,504	24,468	125,311	23,655	6,467	380,197
Cholo S.S	144,792	55,504	24,468	7,848	23,655	6,467	262,734
Lediga M.A	144,792	55,504	24,468	45,691	23,655	6,467	300,577
Mashamaite M.M	144,792	55,504	24,468	1,860	23,655	6,467	256,746

21. Remuneration of councillors (continued)

Kganyago J.K	144,792	65,742	24,468	2,250	23,655	6,467	267,374
Madikoto N.D	144,792	55,552	24,468	38,509	23,656	6,467	293,444
Magongoa R.A	144,792	55,504	24,468	27,430	23,655	6,467	282,316
Manamela M.E	144,792	55,504	24,468	1,650	23,655	6,467	256,536
Maraba E.L	144,792	55,504	24,468	45,433	23,655	6,467	300,319
Marutla T.S	144,792	55,504	24,468	40,771	23,689	6,467	295,691
Mashitisho R.C	193,057	-	24,468	4,950	30,889	6,467	259,831
Phaka P.S	171,150	65,607	24,468	64,720	27,925	5,122	358,992
Matsimela MM	144,792	55,554	24,468	22,301	30,889	6,467	284,471
Mogaila L.J	144,792	55,504	24,468	8,527	23,655	6,467	263,413
Mogotlane L.J	140,575	53,887	24,468	27,717	22,973	6,467	276,087
Mokgapa J.T	144,792	55,504	24,468	42,328	23,655	6,467	297,214
Papola M.S	144,792	55,504	24,468	2,100	23,655	6,467	256,986
Phalane H.M	144,792	55,504	24,468	63,667	23,655	6,467	318,553
Malebana M.B	144,792	55,504	6,468	71,116	23,661	6,467	308,008
Poopedi M.G	193,056	-	24,468	2,400	32,819	6,467	259,210
Phukubje K.J	144,792	55,504	24,468	52,528	23,655	6,467	307,414
Senoamadi K.P	169,627	55,504	24,468	4,475	27,595	6,467	288,136
Sebelebele D	193,056	-	24,468	1,500	30,889	6,467	256,380
Makweya P.P	144,792	26,181	24,468	61,672	23,655	6,467	287,235
Ledwaba T.J	146,198	-	18,351	900	23,497	8,915	197,861
	4,350,511	**1,361,140**	**660,987**	**870,159**	**717,364**	**186,148**	**8,146,309**

Reconciliation of councillors - 2015

	Annual remuneration	Travel allowance	Cellphone allowance	Subsistence allowance	Company contributions	Backpay	Total
Ntsewa L.N	143,496	52,872	21,468	55,540	19,910	9,150	302,436
Lepadima M.L	172,746	66,219	20,868	5,545	28,289	13,048	306,715
Phaka T.G	185,085	51,600	24,468	20,766	22,070	10,167	314,156
Mathye M.V	134,607	51,600	24,468	8,023	22,070	10,167	250,935
Kgatla K.E	134,607	51,600	24,468	71,986	22,070	10,167	314,898
Cholo S.S	134,607	51,600	24,468	4,018	22,070	10,167	246,930
Lediga M.A	134,607	51,600	24,468	26,908	22,070	10,167	269,820
Mashamaite M.M	134,607	51,600	24,468	14,628	22,070	10,167	257,540
Kganyago J.K	134,607	51,600	24,468	4,774	22,072	10,337	247,858
Madikoto N.D	134,607	51,624	20,868	23,582	22,070	10,167	262,918
Magongoa R.A	134,607	51,600	24,468	159,541	22,070	10,167	402,453
Manamela M.E	134,607	51,600	24,468	4,200	22,070	10,167	247,112
Maraba E.L	134,607	51,600	24,468	24,552	22,070	10,167	267,464
Marutla T.S	158,184	34,654	24,468	35,025	25,697	10,167	288,195
Mashitisho R.C	200,541	-	24,468	4,050	32,143	10,167	271,369
Mothotsi C.J	255,857	-	24,468	53,730	40,993	13,047	388,095
Matsimela MM	134,607	51,600	24,468	29,516	22,070	10,167	272,428
Mogaila L.J	134,607	51,600	24,468	3,047	22,070	10,167	245,959
Mogotlane L.J	134,607	51,600	24,468	26,360	22,070	10,167	269,272
Mokgapa J.T	134,607	51,600	24,468	26,303	22,070	10,167	269,215
Papola M.S	134,607	51,600	24,468	1,800	22,070	10,167	244,712
Phalane H.M	134,607	51,600	24,468	41,000	22,070	10,167	283,912
Malebana M.B	169,427	64,947	24,468	52,200	27,752	13,048	351,842
Poopedi M.G	200,541	-	24,468	2,700	32,143	10,167	270,019
Phukubje K.J	134,607	51,600	24,468	50,025	22,070	10,167	292,937
Senoamadi K.P	134,607	51,600	24,468	6,050	22,070	10,167	248,962
Sebelebele D	134,607	-	24,468	1,950	32,155	10,167	203,347
Makweya P.P	169,972	26,181	24,468	43,237	27,502	10,167	301,527

Notes to the Annual Financial Statements

Figures in Rand	2016	2015

21. Remuneration of councillors (continued)

	4,213,382	**1,225,297**	**674,904**	**801,056**	**685,916**	**292,471**	**7,893,026**

22. Finance costs

	2016	2015
Non-current borrowings	139,403	52,982

23. Debt impairment

	2016	2015
Debt impairment	324,286	70,226,360

24. General expenses

	2016	2015
Advertising	438,275	636,118
Auditors remuneration	2,576,956	2,129,241
Bank charges	149,063	93,999
Bursary	-	25,550
Catering	493,311	321,844
Consulting fees	804,310	2,059,713
Electricity	590,805	834,492
Hire	563,233	914,550
Insurance	444,708	488,162
Magazines, books and periodicals	13,562	16,571
Motor vehicle expenses	2,423,041	1,872,949
Other expenditure	54,919,862	31,097,099
Postage and courier	514	1,310
Printing and stationery	1,357,389	880,254
Protective clothing	389,686	168,231
Security (Guarding of municipal property)	4,616,743	2,693,408
Telephone and fax	929,865	470,756
Travel - local	4,246,522	2,373,332
Traffic costs	355,789	254,614
	75,313,634	**47,332,193**

25. Auditors' remuneration

	2016	2015
Fees	2,576,956	2,129,241

Notes to the Annual Financial Statements

Figures in Rand	2016	2015

26. Cash generated from operations

Surplus (deficit)	57,369,561	(18,757,975)
Adjustments for:		
Depreciation and amortisation	7,795,184	4,945,688
Fair value adjustment	(157,517)	(202,250)
Impairment deficit	-	26,931
Debt impairment	324,286	70,226,360
Movements in provisions	40,911	309,207
Acturial (gain)/Losses	109,086	(483,669)
Interest cost: Defined benefit plan	-	97,912
Expected benefit vesting	(41,422)	(36,432)
Current services costs	131,521	174,718
Interest paid	77,830	46,868
Changes in working capital:		
Inventories	(37,055)	227,906
Receivables from exchange transactions	(209,898)	110,122
Consumer debtors	(10,716,696)	(19,865,284)
Payables from exchange transactions	6,793,269	9,234,064
VAT	2,099,396	(5,776,051)
Unspent conditional grants and receipts	(13,001,674)	10,285,624
	50,576,782	**50,563,739**

27. Commitments

Authorised capital expenditure

Approved and contracted for		
• Community assets	12,125,353	3,995,176
• Infrastructure	14,432,912	24,108,386
	26,558,265	**28,103,562**

Total capital commitments		
Already contracted for but not provided for	26,558,265	28,103,562

Authorised operational expenditure

Already contracted for but not provided for		
• Commitment	15,674,253	18,204,966

Total operational commitments		
Already contracted for but not provided for	15,674,253	18,204,966

Notes to the Annual Financial Statements

Figures in Rand	2016	2015

28. Contingencies

Summary of claims lodged

Trade Avail 401 CC vs Aganang Local Municipality	-	52,194
Madimetsa David Mahapa vs Aganang Local municipality	-	350,000
Koooko RM and Makutu KS vs Aganang Local Municipality	600,000	600,000
Thetane MJ vs Aganang Local Municipality	300,000	-
	900,000	**1,002,194**

1. A dispute by Trade Avail 401 CC has been raised against the municipality to the value of R 52 194 for work not covered in the Service Level Agreement entered between himself and the municipality. The matter have been finalised.

2. The Traffic Officers arrested a Paintiff for allegedly violating the rules of the road and was arrested and detained at Ga-Matlala Police Station. After his release, he sued the municipality on the basis that his constitutional rights were violated. The matter has been finalised in favour of the municipality.

3. The municipality is being sued for failing to pay the Traffic Officers salary adjustments. The matter is still underway.

4. The Traffic Officers arrested a Paintiff for allegedly violating the rules of the road and was arrested and detained at Ga-Matlala Police Station. After his release, he sued the municipality on the basis that his constitutional rights were violated. The matter has been finalised in favour of the municipality.

29. Fruitless and wasteful expenditure

Opening balance	411,612	349,049
Fruitless and wastefulexpenditure incurred during the year	9,875	62,563
	421,487	**411,612**

30. Irregular expenditure

Opening balance	49,460,632	35,854,468
Add: Irregular Expenditure - current year	-	13,606,164
	49,460,632	**49,460,632**

Figures in Rand	2016	2015

31. Deviation from supply chain management regulations

Paragraph 12(1)(d)(i) of Government gazette No. 27636 issued on 30 May 2005 states that a supply chain management policy must provide for the procurement of goods and services by way of a competitive bidding process.

Paragraph 36(2) of the same gazette states that the accounting officer may dispense with the official procurement process in certain circumstances, provided that he records the reasons for any deviations and reports them to the next meeting of the accounting officer and includes a note to the annual financial statements. In terms of section 36(1)(a) of the Supply Chain Management Regulations, the accounting officer may dispense with the official procurement processes in the following instances:

- Sole Supplier
- Emergency
- Impracticality

In terms of section 36 of the Municipal Supply Chain Management Regulations, any deviation from the supply chain management policy needs to be approved/condoned by accounting officer and noted by Council. Deviations from the from the official procurement process during the financial year were approved by the accounting officer and noted by Council in terms of the delegations as stipulated and amount to approximately the following:

Diviation on goods and services less than R30 000	278,853	151,196
Deviation on goods and services between R30 000 and 200 000	6,264,039	1,679,621
Deviation of goods and servives above R 200 000	1,854,708	-
	8,397,600	**1,830,817**

32. Related parties

Relationships

Accounting Officer	Refer to accounting officer's report note
Remuneration of key management and councillors	Refer to note 20 and 21

33. Risk management

Financial risk management

Liquidity risk

The municipality’s risk to liquidity is a result of the funds available to cover future commitments. The municipality manages liquidity risk through an ongoing review of future commitments and credit facilities. The municipality credit profile and diversified funding sources to ensure that sufficient liquid funds are maintained to meet its daily cash requirements. The municipality 's policy on counterpart credit exposures ensure that only counterparties on a high credit standing are used for the investments of any excess cash. The municipality manages liquidity risk through ongoing review of future commitments and credit facilities

Credit risk

The creditworthiness can mainly be ascribed to three things,

(a) adequate revenue that supports borrowing
(b) reliable financial information, which is necessary for public disclosure
(c) proper credit ratings

All three these elements are important to ensure municipal creditworthiness. The municipality faces enormous constraints on all three these elements.

The reliability of financial information is determined by factors such as Auditor General's opinion of financial statements which will affect credit ratings of the municipality.

Notes to the Annual Financial Statements

Figures in Rand

34. Going concern

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

35. Additional disclosure in terms of Municipal Finance Management Act

Audit fees

Current year subscription / fee	2,576,956	2,129,241
Amount paid - current year	(2,576,956)	(2,129,241)
	-	-

PAYE and UIF

Current year subscription / fee	7,301,549	6,126,088
Amount paid - current year	(7,301,549)	(6,126,088)
	-	-

Pension and Medical Aid Deductions

Current year subscription / fee	10,306,102	9,432,938
Amount paid - current year	(10,306,102)	(9,432,938)
	-	-

VAT

VAT receivable	7,756,397	9,855,793

36. Prior period errors

The errors on the prior year was adjusted as follows:		
Decrease in VAT receivable		(9,581,473)
Decrease in accumulated surplus		9,581,473

After SARS VAT audit there were some transactions which were disallowed due to lack supporting documentation and some invoices not qualifying. The effect of the error was effected as above

	-	-

Change in accounting policy

Increase in cost of assets		63,298,520
Increase in accumulated depreciation		(35,820,240)
Increase in accumulated surplus	-	(27,478,280)

During the previous year the municipality appointed a consultant to assist with the preparation of asset register and it was decided that the accounting policy should be changed from cost to revaluation model. The effect of the change was as above

	-	-

Changes of items in the financial statements:

Statement of financial position		
Property, plant and equipment	-	27,478,280
VAT receivable	-	(9,581,473)

Appendix F
Disclosures of Grants and Subsidies in terms of Section 123 MFMA, 56 of 2003
June 2016

Name of Grants	Name of organ of state or municipal entity	Quarterly Receipts					Quarterly Expenditure					Grants and Subsidies delayed / withheld					Reason for delay/withholding of funds	Did your municipality comply with the grant conditions in terms of grant framework in the latest Division of Revenue Act	Reason for noncompliance
		Jun	Sep	Dec	Mar	Jun	Jun	Sep	Dec	Mar	Jun	Jun	Sep	Dec	Mar	Jun		Yes/ No	
FMG	National	-	1,800	-	-	-	-	622	492	422	284	-	-	-	-	-		Yes	
MIG	National	-	5,050	13,506	9,805	-	-	214	2,350	6,201	21,334	-	-	-	-	-		Yes	
MSIG	National	-	630	300	-	-	-	-	630	300	-	-	-	-	-	-		Yes	
EPWP	National	-	543	407	407	-	144	743	429	41	-	-	-	-	-	-		Yes	
IDC	National	400	-	-	-	-	-	-	220	100	80	-	-	-	-	-		Yes	
		400	8,023	14,213	10,212	-	144	1,579	4,121	7,064	21,698	-	-	-	-	-			

Note: A municipality should provide additional information on how a grant was spent per Vote. This excludes allocations from the Equitable Share.